

LIBERTY BANCORP AND SUBSIDIARY
South San Francisco, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Liberty Bancorp and Subsidiary
South San Francisco, California

Opinion

We have audited the consolidated financial statements of Liberty Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Liberty Bancorp and Subsidiary as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Liberty Bancorp and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Liberty Bancorp and Subsidiary's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Liberty Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Liberty Bancorp and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.


Crowe LLP

Sacramento, California
April 28, 2022

LIBERTY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 3,720,467	\$ 28,113,126
Investment securities (fair value of \$68,968,896 in 2021 and \$38,363,976 in 2020)	68,685,837	38,019,059
Loans, less allowance for credit losses of \$2,979,605 in 2021 and \$2,929,605 in 2020	213,123,034	214,231,197
Premises and equipment, net	1,738,585	1,838,656
Accrued interest receivable and other assets	<u>5,384,723</u>	<u>6,099,865</u>
Total assets	<u>\$ 292,652,646</u>	<u>\$ 288,301,903</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 88,692,061	\$ 77,389,834
Interest bearing	<u>165,032,649</u>	<u>173,333,964</u>
Total deposits	253,724,710	250,723,798
Accrued interest payable and other liabilities	1,120,328	1,467,832
Short-term borrowings	1,500,000	-
Subordinated promissory notes	<u>13,600,000</u>	<u>13,600,000</u>
Total liabilities	<u>269,945,038</u>	<u>265,791,630</u>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock, no par value; 10,000,000 shares authorized; issued and outstanding – 886,612 shares in 2021 and 2020	10,047,943	10,047,943
Retained earnings	12,882,713	12,467,640
Accumulated other comprehensive loss, net of taxes	<u>(223,048)</u>	<u>(5,310)</u>
Total shareholders' equity	<u>22,707,608</u>	<u>22,510,273</u>
Total liabilities and shareholders' equity	<u>\$ 292,652,646</u>	<u>\$ 288,301,903</u>

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest income:		
Interest and fees on loans	\$ 8,813,518	\$ 9,607,561
Interest on deposits in other banks	28,442	45,332
Interest and dividends on investment securities:		
Taxable	402,769	920,776
Tax-exempt	<u>116,409</u>	<u>148,958</u>
Total interest income	<u>9,361,138</u>	<u>10,722,627</u>
Interest expense:		
Interest on deposits	525,844	1,119,311
Interest on short-term borrowings	138	248
Interest on subordinated promissory notes	<u>241,306</u>	<u>284,644</u>
Total interest expense	<u>767,288</u>	<u>1,404,203</u>
Net interest income before provision for credit losses	8,593,850	9,318,424
Provision for credit losses	<u>50,000</u>	<u>50,000</u>
Net interest income after provision for credit losses	<u>8,543,850</u>	<u>9,268,424</u>
Non-interest income:		
Service charges	231,775	255,077
Other income	<u>305,574</u>	<u>223,664</u>
Total non-interest income	<u>537,349</u>	<u>478,741</u>
Non-interest expenses:		
Salaries and employee benefits	5,400,494	5,478,297
Occupancy and equipment	824,140	745,604
Other expenses	<u>2,288,961</u>	<u>2,419,522</u>
Total non-interest expenses	<u>8,513,595</u>	<u>8,643,423</u>
Income before provision for income taxes	567,604	1,103,742
Provision for income taxes	<u>152,531</u>	<u>305,499</u>
Net income	<u>\$ 415,073</u>	<u>\$ 798,243</u>
Basic income per share	<u>\$ 0.47</u>	<u>\$ 0.90</u>
Weighted average shares outstanding	<u>886,612</u>	<u>886,612</u>

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 415,073	\$ 798,243
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investment securities arising during the period	(315,562)	4,906
Tax effect	<u>97,824</u>	<u>(1,519)</u>
Total other comprehensive income (loss)	<u>(217,738)</u>	<u>3,387</u>
Comprehensive income	<u>\$ 197,337</u>	<u>\$ 801,630</u>

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2021 and 2020

	Common Stock		Retained Earnings	Accumulated Comprehensive Loss (net of taxes)	Total Share- holders' Equity
	Shares	Amount			
Balance, January 1, 2020	886,612	\$ 10,047,943	\$ 11,669,397	\$ (8,697)	\$ 21,708,643
Net income	-	-	798,243	-	798,243
Other comprehensive income	-	-	-	3,387	3,387
Balance, December 31, 2020	886,612	10,047,943	12,467,640	(5,310)	22,510,273
Net income	-	-	415,073	-	415,073
Other comprehensive loss	-	-	-	(217,738)	(217,738)
Balance, December 31, 2021	886,612	\$ 10,047,943	\$ 12,882,713	\$ (223,048)	\$ 22,707,608

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 415,073	\$ 798,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	50,000	50,000
Provision for unfunded commitments	(50,000)	-
Depreciation, accretion and amortization, net	1,596,572	943,289
Net change in deferred loan fees and costs	(262,241)	44,043
Net change in accrued interest receivable and other assets	812,967	(554,023)
Net change in accrued interest payable and other liabilities	<u>(297,504)</u>	<u>69,848</u>
Net cash provided by operating activities	<u>2,264,867</u>	<u>1,351,400</u>
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(67,729,427)	(62,318,652)
Proceeds from maturities and calls of available-for-sale investment securities	34,526,000	73,881,000
Proceeds from maturities and calls of held-to-maturity investment securities	660,000	565,000
Proceeds from principal payments of held-to-maturity investment securities	97,805	111,154
Purchase of FHLB stock	-	(30,200)
Net change in loans	1,320,404	530,761
Purchases of premises and equipment	<u>(33,220)</u>	<u>(97,267)</u>
Net cash provided by (used in) investing activities	<u>(31,158,438)</u>	<u>12,641,796</u>
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	8,586,342	11,533,541
Net decrease in time deposits	(5,585,430)	(31,812)
Proceeds from issuance of subordinated notes	-	3,500,000
Payments and payoffs of subordinated notes	-	(3,750,000)
Net change in short-term borrowings	<u>1,500,000</u>	<u>(1,240,000)</u>
Net cash provided by financing activities	<u>4,500,912</u>	<u>10,011,729</u>
Change in cash and cash equivalents	(24,392,659)	24,004,925
Cash and cash equivalents at beginning of year	<u>28,113,126</u>	<u>4,108,201</u>
Cash and cash equivalents at end of year	<u>\$ 3,720,467</u>	<u>\$ 28,113,126</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 818,000	\$ 1,460,000
Taxes	\$ 75,000	\$ 160,000

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Liberty Bancorp (the "Company") was incorporated on November 29, 2000 and subsequently obtained approval from the Board of Governors of the Federal Reserve System to be a bank holding company. On July 1, 2001, Liberty Bank (the "Bank") consummated a merger with Liberty Bancorp that was effected through the exchange of one share of the Company's stock for each share of the Bank's stock. The reorganization represents an exchange of shares between entities under common control, and, as a result, assets and liabilities of the Bank were recognized at their carrying amounts in the accounts of the Company.

The Bank operates three full service branches in California located in South San Francisco, Boulder Creek, and Felton. While the Bank provides many different customized and traditional banking services, the Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

The accounting and reporting policies of Liberty Bancorp and subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, the Bank. In addition, the accounts of the Bank's wholly owned subsidiary, 1776 Investments, Inc. (an inactive real estate development company), are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification: Some items in prior year financial statements were reclassified to conform to the current presentation. Reclassification had no effect on prior year net income or shareholders' equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash and due from banks are considered to be cash equivalents. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

Investment Securities: Investment securities are classified into the following categories:

- Available-for-sale investment securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity investment securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management determines the appropriate classification of its investment securities at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers between categories during the years ended December 31, 2021 and 2020.

Gains or losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums accounted for with level yield with no prepayment anticipated. In addition, unrealized losses that are other than temporary are recognized in earnings for all investments.

An investment security is impaired when its carrying value is greater than its fair value. Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized, in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Investment in Bank Stocks: As a member of the Federal Home Loan Bank (FHLB) System, the Federal Reserve Bank (FRB) System and The Independent Bankers Bank (TIB), the Company is required to maintain an investment in the capital stock of the FHLB, FRB and TIB. The investment is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2021 and 2020, FHLB stock totaled \$1,558,000 and \$1,558,000, respectively, FRB stock totaled \$737,400 and \$737,400, respectively, and TIB stock totaled \$267,115 and \$267,115, respectively. On the consolidated balance sheets, FHLB, FRB, and TIB stocks are included in accrued interest receivable and other assets. Both cash and stock dividends are reported as income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balances outstanding, adjusted for unamortized discounts and premiums and net of deferred loan origination fees and costs, write-downs and the allowance for loan losses. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered impaired and the future collectability of interest and principal is in serious doubt, a loan is placed on nonaccrual status and the accrual of interest income is suspended. A loan is moved to non-accrual status in accordance with the Company's policy upon reaching not more than 90 days of non-payment unless well secured and in the process of collection. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Past due status is based on the contractual terms of the loans. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contract terms for a reasonable period of time and the ultimate collectability of the loan's contractual principal and interest is no longer in doubt.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. Interest income on impaired loans, if appropriate, is recognized on a cash basis.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Allowance for Credit Losses: The allowance for credit losses is a valuation allowance for probable incurred loan losses as of the balance sheet date. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components; specific reserves related to individually identified impaired loans and general reserves for losses related to loans that are collectively evaluated for impairment.

For all segments of the loan portfolio, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company grants a concession to the debtor for economic or legal reasons related to the debtor's financial difficulties that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Management evaluates all loan modifications for loan classification as TDR. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. For TDRs that subsequently default, the company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment over the past twelve quarters, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial and industrial, commercial real estate, construction (including land and development loans), unsecured real estate, and consumer loans. The allowance for credit losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, and is available for all loss exposures.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company assigns a risk rating to all loans and at least semi-annually performs detailed reviews of all such loans over \$100,000 and all criticized and classified loans to identify credit risks and to assess the overall collectability of the portfolio. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. Smaller balance loans, predominantly consumer loans, are evaluated for impairment and monitored for credit quality primarily based on payment status. These credit quality indicators are used to assign a risk rating to each individual loan. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for credit losses associated with loans collectively evaluated for impairment also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses over the past twelve quarters and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Commercial and industrial – Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial real estate – Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real estate construction and other land – Real estate construction and other land loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and timelines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Real estate – unsecured – Unsecured real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments because these loans are to finance real estate, construction, and land development activities and are not secured by real estate. Such loans may include; (1) unsecured loans made for the express purpose of financing real estate ventures as evidenced by loan documentation or other circumstances connected with the loans; or (2) loans made to organizations or individuals 80% of whose revenue or assets are derived from or consist of real estate ventures or holdings. Unsecured real estate loans are susceptible to risk of non-payment due to diminished or lost income, over-extension of credit and lack of borrower's cash flow to sustain payments. In general, economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Other consumer – The degree of risk in residential real estate lending, primarily home equity lines of credit, depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors and management reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FRB and the California Department of Financial Protection and Innovation (DFPI), as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheets.

Other Real Estate Owned: Other real estate includes real estate acquired in full or partial settlement of loan obligations and are measured at fair value less costs to sell. When property is acquired, any excess of the Company's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property net of estimated selling costs, is charged against the allowance for credit losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate that is included in non-interest expense. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in non-interest expense as incurred. There were no sales of real estate during the years ended 2021 or 2020.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be between twenty and forty years. The useful lives of improvements to premises, furniture, fixtures and equipment are estimated to be three to forty years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes: The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative, is considered to determine whether, based on the weight of the evidence, a valuation allowance is needed.

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2021 and 2020.

Earnings Per Share: Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale investment securities which are also recognized as separate components of equity.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: The Company has evaluated the effects of subsequent events for recognition and disclosure through April 28, 2022, which is the date the consolidated financial statements were available to be issued. On February 28, 2022, the Company entered into a definitive agreement with DMG Bancshares, Inc. and Patriot CA Merger Sub Corp, under which the Company would be acquired in an all-cash transaction concluding in July 2022.

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value: The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis, as well as the total losses resulting from the nonrecurring fair value adjustments, as of December 31, 2021 and 2020:

Recurring Basis

<u>Description</u>	<u>2021</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities:				
Corporate debt securities	\$ 66,521,145	\$ -	\$ 66,521,145	\$ -
Total assets measured at fair value	<u>\$ 66,521,145</u>	<u>\$ -</u>	<u>\$ 66,521,145</u>	<u>\$ -</u>

<u>Description</u>	<u>2020</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities:				
Corporate debt securities	\$ 35,132,636	\$ -	\$ 35,132,636	\$ -
Total assets measured at fair value	<u>\$ 35,132,636</u>	<u>\$ -</u>	<u>\$ 35,132,636</u>	<u>\$ -</u>

Fair values for available-for-sale investment securities, which include corporate debt securities, are based on quoted market prices for similar securities. During the years ended December 31, 2021 and 2020, there were no transfers in or out of Levels 1 and 2.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

There were no assets recorded at fair value on a non-recurring basis at December 31, 2021 and 2020.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Fair value of financial instruments: The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2021 and 2020 are as follows:

Fair Value Measurements at December 31, 2021 using:				
(dollars in thousands)	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:				
Cash and cash equivalents	\$ 3,720	\$ 3,720	\$ -	\$ -
Securities held to maturity	2,164	-	2,448	-
Loans, net	213,123	-	-	206,792
Accrued interest receivable	1,159	-	602	557
Financial Liabilities:				
Noninterest-bearing deposits	\$ 88,692	\$ 88,692	\$ -	\$ -
Interest-bearing deposits	165,033	132,049	-	32,950
Subordinated debt	13,600	-	-	12,651
Accrued interest payable	427	-	427	-

Fair Value Measurements at December 31, 2020 using:				
(dollars in thousands)	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:				
Cash and cash equivalents	\$ 28,113	\$ 28,113	\$ -	\$ -
Securities held to maturity	2,886	-	3,231	-
Loans, net	214,231	-	-	210,023
Accrued interest receivable	1,780	-	370	1,410
Financial Liabilities:				
Noninterest-bearing deposits	\$ 77,390	\$ 77,390	\$ -	\$ -
Interest-bearing deposits	173,334	138,119	-	38,401
Subordinated debt	13,600	-	-	12,442
Accrued interest payable	478	-	478	-

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2021 and 2020 consisted of the following:

Available-for-Sale

	2021			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
Corporate debt securities	\$ 66,844,403	\$ 3,839	\$ (327,097)	\$ 66,521,145
	<u>\$ 66,844,403</u>	<u>\$ 3,839</u>	<u>\$ (327,097)</u>	<u>\$ 66,521,145</u>

At December 31, 2021, unrealized losses on available-for-sale investment securities totaling \$223,048 were recorded, net of taxes, as accumulated other comprehensive loss within shareholders' equity.

Available-for-Sale

	2020			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
Corporate debt securities	\$ 35,140,332	\$ 20,471	\$ (28,167)	\$ 35,132,636
	<u>\$ 35,140,332</u>	<u>\$ 20,471</u>	<u>\$ (28,167)</u>	<u>\$ 35,132,636</u>

At December 31, 2020, unrealized losses on available-for-sale investment securities totaling \$5,310 were recorded, net of taxes, as accumulated other comprehensive loss within shareholders' equity. There were no sales of available-for-sale securities occurring in 2021 or 2020.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 – INVESTMENT SECURITIES (Continued)

Held-to-Maturity

	2021			
	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Estimated Fair <u>Value</u>
Debt securities:				
Municipal securities	\$ 2,067,365	\$ 281,593	\$ -	\$ 2,348,958
Other asset-backed securities	<u>97,327</u>	<u>1,466</u>	<u>-</u>	<u>98,793</u>
	<u>\$ 2,164,692</u>	<u>\$ 283,059</u>	<u>\$ -</u>	<u>\$ 2,447,751</u>

Held-to-Maturity

	2020			
	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Estimated Fair <u>Value</u>
Debt securities:				
Municipal securities	\$ 2,689,928	\$ 340,302	\$ -	\$ 3,030,230
Other asset-backed securities	<u>196,495</u>	<u>4,615</u>	<u>-</u>	<u>201,110</u>
	<u>\$ 2,886,423</u>	<u>\$ 344,917</u>	<u>\$ -</u>	<u>\$ 3,231,340</u>

There were no sales or transfers of held-to-maturity investment securities during the years ended December 31, 2021 and 2020.

No securities of an individual issuer exceeded 10% of shareholders' equity.

Investment securities with unrealized losses at December 31, 2021 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Debt securities:						
Corporate debt securities	\$ 64,331,812	\$ (327,097)	\$ -	\$ -	\$ 64,331,812	\$ (327,097)
Municipal securities	-	-	-	-	-	-
Other asset-backed securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 64,331,812</u>	<u>\$ (327,097)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,331,812</u>	<u>\$ (327,097)</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 – INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2020 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Corporate debt securities	\$21,380,226	\$ (28,167)	\$ -	\$ -	\$ 21,380,226	\$ (28,167)
Municipal securities	-	-	-	-	-	-
Other asset-backed securities	-	-	-	-	-	-
	<u>\$ 21,380,226</u>	<u>\$ (28,167)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,380,226</u>	<u>\$ (28,167)</u>

Corporate Debt Securities and Municipal Securities: At December 31, 2021, the Company held 126 corporate debt securities and 13 municipal securities of which 122 corporate securities were in a loss position less than twelve months and no municipal securities were in a loss position of less than 12 months. No corporate or municipal securities were in a loss position for 12 months or more.

At December 31, 2020, the Company held 75 corporate debt securities and 18 municipal securities of which 41 corporate securities were in a loss position less than twelve months and no municipal securities were in a loss position of less than 12 months. No corporate or municipal securities were in a loss position for 12 months or more.

The unrealized losses on the Company's investment in corporate debt and municipal securities relate principally to changes in interest rates since the date of purchase. These securities continue to pay as scheduled despite their impairment due to current market conditions. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2021.

The amortized cost and estimated fair value of investment securities at December 31, 2021 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 26,636,148	\$ 26,597,606	\$ 29,660	\$ 30,104
After one year through five years	40,208,255	39,923,539	821,317	912,318
After five years through ten years	-	-	663,457	820,650
After ten years	-	-	650,258	684,679
	<u>\$ 66,844,403</u>	<u>\$ 66,521,145</u>	<u>\$ 2,164,692</u>	<u>\$ 2,447,751</u>

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LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 – LOANS

Loans and leases consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Commercial and industrial	\$ 10,942,574	\$ 19,708,199
Real estate – commercial	192,783,513	187,663,792
Real estate – construction and other land	6,166,331	3,795,469
Real estate – unsecured	-	-
Other consumer	<u>6,544,713</u>	<u>6,590,075</u>
Total	216,437,131	217,757,535
Deferred loan fees, net	(334,492)	(596,733)
Allowance for credit losses	<u>(2,979,605)</u>	<u>(2,929,605)</u>
	<u>\$ 213,123,034</u>	<u>\$ 214,231,197</u>

The Bank participated in the Paycheck Protection Program (“PPP”), under the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. As of December 31, 2021 and 2020, PPP loans had an outstanding balance of approximately \$276,000 and \$8,874,000, respectively, and are included with commercial and industrial loans in the table above. The loans have two-year terms and are fully guaranteed by the U.S. Small Business Administration (SBA) and do not carry any allowance.

Nonaccrual loans totaled \$2,833,876 and \$0 at December 31, 2021 and 2020, respectively. There were no accruing loans past due 90 days or more at December 31, 2021 or 2020. Interest forgone on nonaccrual loans totaled \$104,000 and \$0 for the years ended December 31, 2021 and 2020, respectively.

Salaries and employee benefits totaling \$56,601 and \$142,781 have been deferred as loan origination costs for the years ended December 31, 2021 and 2020, respectively.

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES

A summary of the changes in the allowance for credit losses were as follows:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 2,929,605	\$ 2,879,605
Provision for credit loss	50,000	50,000
Recoveries	-	-
Charge-offs	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,979,605</u>	<u>\$ 2,929,605</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the allocation of the allowance for credit losses at and for the year ended December 31, 2021 by portfolio segment and by impairment methodology:

<u>Allowance for Credit Losses</u>	Commercial and Industrial	Commercial Real Estate	Construction and Other Land	Unsecured Real Estate	Other Consumer	Total
Beginning balance	\$ 125,271	\$ 2,701,771	\$ 70,127	\$ -	\$ 32,436	\$ 2,929,605
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision (Reversal)	(8,430)	9,107	46,700	-	2,623	50,000
Ending balance allocated to portfolio segments	<u>\$ 116,841</u>	<u>\$ 2,710,878</u>	<u>\$ 116,827</u>	<u>\$ -</u>	<u>\$ 35,059</u>	<u>\$ 2,979,605</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 116,841</u>	<u>\$ 2,710,878</u>	<u>\$ 116,827</u>	<u>\$ -</u>	<u>\$ 35,059</u>	<u>\$ 2,979,605</u>
<u>Loans</u>						
Ending balance	<u>\$ 10,942,574</u>	<u>\$ 192,783,513</u>	<u>\$ 6,166,331</u>	<u>\$ -</u>	<u>\$ 6,544,713</u>	<u>\$ 216,437,131</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 5,350,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,350,805</u>
Ending balance: collectively evaluated for impairment	<u>\$ 10,942,574</u>	<u>\$ 187,432,708</u>	<u>\$ 6,166,331</u>	<u>\$ -</u>	<u>\$ 6,544,713</u>	<u>\$ 211,086,326</u>

The following table shows the allocation of the allowance for credit losses at and for the year ended December 31, 2020 by portfolio segment and by impairment methodology:

<u>Allowance for Credit Losses</u>	Commercial and Industrial	Commercial Real Estate	Construction and Other Land	Unsecured Real Estate	Other Consumer	Total
Beginning balance	\$ 169,799	\$ 2,575,607	\$ 40,830	\$ 15,527	\$ 77,842	\$ 2,879,605
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision (Reversal)	(44,528)	126,164	29,297	(15,527)	(45,406)	50,000
Ending balance allocated to portfolio segments	<u>\$ 125,271</u>	<u>\$ 2,701,771</u>	<u>\$ 70,127</u>	<u>\$ -</u>	<u>\$ 32,436</u>	<u>\$ 2,929,605</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 125,271</u>	<u>\$ 2,701,771</u>	<u>\$ 70,127</u>	<u>\$ -</u>	<u>\$ 32,436</u>	<u>\$ 2,929,605</u>
<u>Loans</u>						
Ending balance	<u>\$ 19,708,199</u>	<u>\$ 187,663,792</u>	<u>\$ 3,795,469</u>	<u>\$ -</u>	<u>\$ 6,590,075</u>	<u>\$ 217,757,535</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 2,594,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,594,758</u>
Ending balance: collectively evaluated for impairment	<u>\$ 19,708,199</u>	<u>\$ 185,069,034</u>	<u>\$ 3,795,469</u>	<u>\$ -</u>	<u>\$ 6,590,075</u>	<u>\$ 215,162,777</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
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NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2021 and 2020:

	Credit Risk Profile by Internally Assigned Risk Rating					Total
	Commercial and Industrial	Commercial Real Estate	Construction and Other Land	Unsecured Real Estate	Other Consumer	
<u>2021</u>						
Grade:						
Pass	\$ 10,642,574	\$ 184,322,423	\$ 6,166,331	\$ -	\$ 6,544,713	\$ 207,676,041
Special Mention	300,000	3,110,285	-	-	-	3,410,285
Substandard	-	5,350,805	-	-	-	5,350,805
Total	<u>\$ 10,942,574</u>	<u>\$ 192,783,513</u>	<u>\$ 6,166,331</u>	<u>\$ -</u>	<u>\$ 6,544,713</u>	<u>\$ 216,437,131</u>
<u>2020</u>						
Grade:						
Pass	\$ 18,753,909	\$ 180,494,766	\$ 3,795,469	\$ -	\$ 5,670,340	\$ 208,714,484
Special Mention	-	6,080,647	-	-	-	6,080,647
Substandard	954,290	1,088,379	-	-	919,735	2,962,404
Total	<u>\$ 19,708,199</u>	<u>\$ 187,663,792</u>	<u>\$ 3,795,469</u>	<u>\$ -</u>	<u>\$ 6,590,075</u>	<u>\$ 217,757,535</u>

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2021 and 2020:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Nonaccrual
<u>2021</u>							
Commercial:							
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 10,942,574	\$ 10,942,574	\$ -
Commercial real estate	-	2,833,876	-	2,833,876	189,949,637	192,783,513	2,833,876
Construction and land	-	-	-	-	6,166,331	6,166,331	-
Unsecured real Estate	-	-	-	-	-	-	-
Consumer:							
Other consumer	-	-	-	-	6,544,713	6,544,713	-
Total	<u>\$ -</u>	<u>\$ 2,833,876</u>	<u>\$ -</u>	<u>\$ 2,833,876</u>	<u>\$ 213,603,255</u>	<u>\$ 216,437,131</u>	<u>\$ 2,833,876</u>
<u>2020</u>							
Commercial:							
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 19,708,199	\$ 19,708,199	\$ -
Commercial real estate	2,546,953	-	-	2,546,953	185,166,839	187,663,792	-
Construction and land	-	-	-	-	3,795,469	3,795,469	-
Unsecured real Estate	-	-	-	-	-	-	-
Consumer:							
Other consumer	-	-	-	-	6,590,075	6,590,075	-
Total	<u>\$ 2,546,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,546,953</u>	<u>\$ 215,210,582</u>	<u>\$ 217,757,535</u>	<u>\$ -</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables show information related to impaired loans at and for the years ended December 31, 2021 and 2020:

	December 31, 2021				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	5,350,805	5,454,805	-	5,496,661	278,442
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	5,350,805	5,454,805	-	5,496,661	278,442
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-
	December 31, 2020				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	2,594,758	2,594,758	-	2,629,043	102,518
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-
Total:					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	2,594,758	2,594,758	-	2,629,043	102,518
Construction and land	-	-	-	-	-
Unsecured real estate	-	-	-	-	-
Other consumer	-	-	-	-	-

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (Continued)

Interest income recorded on a cash basis on impaired loans was substantially the same as the interest income recognized in the tables above.

As of December 31, 2021 and 2020, the Company allocated \$0 in specific reserve for the loans which were modified as troubled debt restructurings, respectively. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2021 or 2020. There were no new troubled debt restructurings that occurred during the year ended December 31, 2021 or 2020, respectively. During the year ended December 31, 2021 and 2020, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification.

The terms of certain other loans that were modified during the year ending December 31, 2021 and 2020 did not meet the definition of a troubled debt restructuring as the modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

The outbreak of COVID-19 has resulted in restrictions on travel and gatherings and restricted business activities. As such this has resulted in uncertainty that may impact significant estimates in the future. The Bank is working with borrowers impacted by COVID-19 and providing modifications to defer payments. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under interagency guidance of the federal banking regulators. During 2021, the bank did not modify loans under Section 4013 of the CARES Act. During 2020, the Bank modified 55 loans with outstanding balances of \$55,198,491. As of December 31, 2021 and 2020, there were 0 and 3 of such loans remaining with outstanding balances of \$0 and \$9,514,230, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2021	2020
Land	\$ 477,146	\$ 477,146
Buildings and improvements	4,346,702	4,346,702
Furniture, fixtures and equipment	1,379,316	1,711,409
	6,203,164	6,535,257
Less accumulated depreciation and amortization	(4,464,579)	(4,696,601)
	\$ 1,738,585	\$ 1,838,656

Depreciation and amortization included in occupancy and equipment expense totaled \$133,290 and \$161,176 for the years ended December 31, 2021 and 2020, respectively.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at December 31, 2021 and 2020 were \$10,566,027 and \$13,439,589, respectively.

Interest-bearing deposits consisted of the following:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Savings	\$ 28,020,604	\$ 26,873,614
Money market	91,503,688	93,581,683
NOW accounts	12,524,995	14,309,875
Time	<u>32,983,362</u>	<u>38,568,792</u>
	<u>\$ 165,032,649</u>	<u>\$ 173,333,964</u>

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2022	\$ 28,745,753
2023	3,374,203
2024	767,446
2025	68,843
2026	<u>27,117</u>
	<u>\$ 32,983,362</u>

Interest expense recognized on interest-bearing deposits consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Savings	\$ 14,114	\$ 20,837
Money market	135,346	349,830
NOW accounts	3,427	5,204
Time	<u>372,957</u>	<u>743,440</u>
	<u>\$ 525,844</u>	<u>\$ 1,119,311</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 8 – BORROWING ARRANGEMENTS

Federal Home Loan Bank: At December 31, 2021 and 2020, the Bank could borrow up to 60% of pledged loans from the Federal Home Loan Bank of San Francisco. As of December 31, 2021, and 2020, the Bank had pledged loans with total carrying values of \$160,229,929 and \$166,259,870, respectively. At December 31, 2021, the Bank had \$1,500,000 in borrowings under this arrangement. At December 31, 2020, the Bank had \$0 in borrowings under this arrangement.

Lines of Credit: The Bank had two unsecured lines of credit with its correspondent banks with an aggregate amount available for borrowing totaling \$25,400,000 and \$17,400,000 at December 31, 2021 and 2020. There were no borrowings outstanding on these arrangements as of December 31, 2021 and 2020.

Federal Reserve Bank: The Bank also had a collateralized line of credit with the Federal Reserve Bank of San Francisco which amounted to approximately \$2,694,413 and \$2,902,548 with no outstanding borrowings at December 31, 2021 and 2020, respectively.

NOTE 9 – SUBORDINATED PROMISSORY NOTES

The Company has executed certain unsecured subordinated promissory notes with its majority shareholder. During the years ended December 31, 2021 and 2020, interest expense on the subordinated promissory notes totaled \$241,306 and \$284,644, respectively. The outstanding balances and terms of these notes consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Due January 22, 2022; \$1,000,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	\$ 1,000,000	\$ 1,000,000
Due June 6, 2022; \$1,350,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	1,350,000	1,350,000
Due August 2, 2023; \$1,500,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	1,500,000	1,500,000
Due October 1, 2023; \$2,750,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	2,750,000	2,750,000
Due January 1, 2024; \$2,250,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	2,250,000	2,250,000

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 – SUBORDINATED PROMISSORY NOTES (Continued)

	<u>2021</u>	<u>2020</u>
Due October 1, 2024; \$1,250,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	\$ 1,250,000	\$ 1,250,000
Due January 2, 2025; \$3,500,000 available with variable interest rate payable quarterly at the Federal Funds Rate plus 1.50% (1.75% at December 31, 2021, 1.75% at December 31, 2020).	<u>3,500,000</u>	<u>3,500,000</u>
	<u>\$ 13,600,000</u>	<u>\$ 13,600,000</u>

NOTE 10 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2021 and 2020 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2021</u>			
Current	\$ 17,000	\$ (20,000)	\$ (3,000)
Deferred	<u>71,000</u>	<u>84,000</u>	<u>155,000</u>
	<u>\$ 88,000</u>	<u>\$ 64,000</u>	<u>\$ 152,000</u>
<u>2020</u>			
Current	\$ -	\$ 111,000	\$ 111,000
Deferred	<u>186,000</u>	<u>8,000</u>	<u>194,000</u>
	<u>\$ 186,000</u>	<u>\$ 119,000</u>	<u>\$ 305,000</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 10 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Operating loss carryforward	\$ 553,000	\$ 683,000
Unrealized loss on available-for-sale investment securities	96,000	2,000
Other	<u>147,000</u>	<u>187,000</u>
Total deferred tax assets	<u>796,000</u>	<u>872,000</u>
Deferred tax liabilities:		
Allowance for credit losses	(111,000)	(126,000)
Premises and equipment	(30,000)	(30,000)
FHLB stock	(30,000)	(30,000)
Other	<u>(63,000)</u>	<u>(63,000)</u>
Total deferred tax liabilities	<u>(234,000)</u>	<u>(249,000)</u>
Net deferred tax assets	<u>\$ 562,000</u>	<u>\$ 623,000</u>

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent on generating sufficient taxable income prior to their expiration. Management has determined for the year-ended December 31, 2021 that it is more likely than not that all deferred tax assets will be realized, and as such, no valuation allowance is considered necessary against deferred tax assets.

At December 31, 2021, the Company had California net operating losses (NOL) of approximately \$699,961. The California NOL will begin to expire if not utilized by 2033.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 10 – INCOME TAXES (Continued)

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to income before provision for income taxes. The significant items comprising these differences consisted of the following:

	Year Ended December 31,			
	2021		2020	
	Amount	Rate %	Amount	Rate %
Federal income tax expense at statutory rate	\$ 119,000	21.0%	\$ 232,000	21.0%
State income tax expense at statutory rate	51,000	9.0	95,000	8.6
Interest on obligations of states and political subdivisions	(16,000)	(2.8)	(28,000)	(2.5)
Other	(2,000)	(0.4)	6,000	0.5
Total income tax expense	\$ 152,000	26.8%	\$ 305,000	27.6%

The Company and its subsidiary file income tax returns in the U.S. Federal and California jurisdictions. There are currently no pending U.S. Federal, state, and local income tax or non-U.S. income tax examinations by tax authorities.

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2018 and by state and local taxing authorities for years ended before December 31, 2017.

As of December 31, 2021 and 2020, there were no unrecognized tax benefits or interest and penalties accrued by the Company. There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements: Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The reserve requirements at December 31, 2021 and 2020 were not considered significant for disclosure purposes.

Financial Instruments With Off-Balance-Sheet Risk: The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheet.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

The following financial instruments represent the approximate off-balance-sheet credit risk at December 31:

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 24,427,811	\$ 22,443,837
Standby letters of credit	\$ 188,699	\$ 188,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2021 and 2020, commercial loan commitments represent approximately 98% and 99%, respectively, of total commitments and are generally unsecured and also have variable interest rates. Unsecured overdraft line commitments represent the remaining 2% and 1%, respectively as of December 31, 2021 and 2020, of total commitments and generally have variable interest rates.

Concentrations of Credit Risk: Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, most of the Company's lending activity is with customers within the state of California and primarily in the counties of San Mateo and Santa Cruz. The majority of the Company's loans that are secured by real estate are secured by properties within these counties. Loans are generally made on the basis of a secure repayment source, which is based on a detailed cash flow analysis; however, collateral is generally a secondary source for loan qualification.

Approximately 5% of the Company's loan portfolio is made up of secured and unsecured commercial loans. Secured commercial loans are collateralized by equipment, marketable securities, and other tangible assets of the borrowing entities or the principals of the borrowing entities. Approximately 92% of the Company's loan portfolio is made up of real estate loans. This category of real estate loans includes owner occupied as well as income-producing commercial properties and real estate construction loans. Approximately 3% of the loan portfolio is other loans.

Contingencies: The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 12 – REGULATORY MATTERS

Regulatory Capital: The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021 and 2020, the Bank met all capital adequacy requirements to which it is subject.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% for calendar year 2021, 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.5% for calendar year 2021, 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The following table represents the Bank's regulatory capital position as of December 31, 2021 and 2020 in relationship to the minimum regulatory requirements for an adequately capitalized and well capitalized institution:

	2021		2020	
	Amount	Ratio	Amount	Ratio
<u>Tier 1 (Core) Capital to average total assets</u>				
Liberty Bank	\$ 36,038,000	12.2%	\$ 35,555,000	11.9%
Minimum requirement for "Well-Capitalized" institution	\$ 14,741,000	5.0%	\$ 14,886,000	5.0%
Minimum regulatory requirement	\$ 11,793,000	4.0%	\$ 11,909,000	4.0%

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 12 – REGULATORY MATTERS (continued)

Dividend Restrictions: The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year subject to approval by the DFPI.

Pursuant to the Code of Federal Regulations, the Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the bank's net income (as reportable in its Reports of Condition and Income) during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Board of Governors of the Federal Reserve System.

NOTE 13 – OTHER EXPENSES

Other expenses consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Insurance and assessments	\$ 206,035	\$ 161,267
Data processing fees	773,506	791,346
Professional fees	341,484	374,118
Armored car and courier	141,284	136,530
Directors fees and expenses	160,102	154,182
Stationery and supplies	69,518	93,451
Advertising	64,684	66,470
Telephone	139,807	125,900
Other expenses	<u>392,54</u>	<u>516,258</u>
	<u>\$ 2,288,961</u>	<u>\$ 2,419,522</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 14 – EMPLOYEE BENEFITS

In 1989, the Company established a 401(k) plan (the "Plan") for eligible employees. All employees 21 years of age or older and having completed 90 days of employment are eligible to participate in the Plan. According to the Plan, the Company may make discretionary matching contributions. Discretionary contributions of \$337,684 and \$346,021 were made to the Plan in 2021 and 2020, respectively. Contributions to the Plan by the Company become fully vested after three years of service. Employee contributions to the Plan are fully vested as of the contribution date.

NOTE 15 – RELATED PARTY TRANSACTIONS

Loans and Commitments: During the normal course of business, the Company enters into loans with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers:

Balance, January 1, 2020	623,948
Disbursements	503,082
Amounts repaid	<u>(146,233)</u>
Balance, December 31, 2020	<u>980,797</u>
Disbursements	-
Amounts repaid	<u>(567,972)</u>
Balance, December 31, 2021	<u>\$ 412,825</u>
Undisbursed commitments to related parties, December 31, 2021	<u>\$ 330,000</u>

As of December 31, 2021 and 2020 the Company serviced 7 and 10 loans respectively, totaling \$2,576,504 and \$3,918,003, respectively, on behalf of certain related parties.

Deposits: During the normal course of business, the Company accepts deposits from related parties. Deposits from the Company's majority shareholder and other entities under its common control totaled \$24,126,655 and \$33,521,669 at December 31, 2021 and 2020, respectively, with weighted average interest rates of 0.34% and 0.36%, respectively.

Subordinated Promissory Note: As disclosed in Note 9, the Company has unsecured subordinated promissory notes with its majority shareholder.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

A subset of our noninterest income relates to certain fee-based revenue within the scope of ASC Topic 606, *Revenue from Contracts with Customers (Topic 606)*. The objective of the standard is to clarify the principles for recognizing revenue from contracts with customers across all industries and to develop a common revenue standard under GAAP. All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Bank's sources of Non-Interest Income for the twelve months ended December 31, 2021 and 2020, respectfully. Items outside the scope of ASC 606 are noted as such.

	<u>2021</u>	<u>2020</u>
Non-interest income:		
Service charges and fees	\$ 231,775	\$ 255,077
Other income ^(a)	<u>305,574</u>	<u>223,664</u>
Total non-interest income	<u>\$ 537,349</u>	<u>\$ 478,741</u>

^(a)Not within the scope of ASC 606.

A description of the Bank's revenue streams accounted for under ASC 606 follows.

Service charges and fees: Retail Banking provides demand deposit, money market and savings account products for consumer and small business customers. Services include online and branch banking, overdraft, ATM use fees, wire transfer services, imaging services and cash alternative services such as cashier's checks. We recognize fee income at the time these services are performed for the customer.

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 17 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and due from banks	\$ 135,384	\$ 79,892
Accrued interest receivable and other assets	104,705	113,937
Investment in subsidiary	<u>36,134,224</u>	<u>35,983,148</u>
Total assets	<u>36,374,313</u>	<u>\$ 36,176,977</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accrued expenses	\$ 66,705	\$ 66,704
Subordinated promissory notes	<u>13,600,000</u>	<u>13,600,000</u>
Total liabilities	<u>13,666,705</u>	<u>13,666,704</u>
Shareholders' equity:		
Common stock	10,047,943	10,047,943
Retained earnings	12,882,713	12,467,640
Accumulated other comprehensive loss, net of taxes	<u>(223,048)</u>	<u>(5,310)</u>
Total shareholders' equity	<u>22,707,608</u>	<u>22,510,273</u>
Total liabilities and shareholders' equity	<u>\$ 36,374,313</u>	<u>\$ 36,176,977</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 17 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Income:		
Dividend income	\$ 300,000	\$ 400,000
Other income	<u>101</u>	<u>166</u>
Total income	<u>300,101</u>	<u>400,166</u>
Expenses:		
Interest on subordinated promissory notes	241,306	284,644
Other expenses	<u>117,241</u>	<u>100,919</u>
Total expenses	<u>358,547</u>	<u>385,563</u>
Income before equity in undistributed income of subsidiary	(58,446)	14,603
Undistributed equity in income of subsidiary	<u>368,814</u>	<u>669,703</u>
Income before income taxes	310,368	684,306
Income tax benefit	<u>104,705</u>	<u>113,937</u>
Net income	<u>\$ 415,073</u>	<u>\$ 798,243</u>

(Continued)

LIBERTY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 17 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 415,073	\$ 798,243
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed equity in income of subsidiary	(368,814)	(669,703)
Decrease in accrued interest receivable and other assets	9,232	61,320
Increase (decrease) in accrued expenses	<u>1</u>	<u>(57,800)</u>
Net cash provided by operating activities	<u>55,492</u>	<u>132,060</u>
Cash flows used in investing activities:		
Investment in Bank subsidiary	<u>-</u>	<u>-</u>
Cash flows used in financing activities:		
Proceeds from issuance of subordinated notes	-	3,500,000
Payments and payoffs of subordinated notes	<u>-</u>	<u>(3,750,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(250,000)</u>
Increase (decrease) in cash and cash equivalents	55,492	(117,940)
Cash and cash equivalents at beginning of period	<u>79,892</u>	<u>197,832</u>
Cash and cash equivalents at end of year	<u>\$ 135,384</u>	<u>\$ 79,892</u>